

**STATEMENT OF ACTIVITIES**  
**YEAR ENDED OCTOBER 31, 2008**

The accompanying notes are an integral part of these financial statements.

**CITY OF ABBEVILLE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**OCTOBER 31, 2008**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 358,203	\$ 65,329	\$ 423,532
Investments	525,672	-	525,672
Inventories	19,861	-	19,861
Receivables, net			
Property taxes	50,738	-	50,738
Accounts	19,121	4,688	23,809
Prepaid items	21,834	-	21,834
Due from other governments	28,963	4,975	33,938
Due from other funds	343,343	59,057	402,400
<b>Total assets</b>	<b>\$ 1,367,735</b>	<b>\$ 134,049</b>	<b>\$ 1,501,784</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 317,433	\$ 11,468	\$ 328,901
Deferred revenue	90,231	-	90,231
Unearned revenue	-	4,688	4,688
Accrued expenditures	78,156	-	78,156
Other liabilities	11,391	-	11,391
Due to other funds	59,057	4,975	64,032
<b>Total liabilities</b>	<b>556,268</b>	<b>21,131</b>	<b>577,399</b>
<b>FUND BALANCES</b>			
Reserved			
Inventories	19,861	-	19,861
Prepaid items	21,834	-	21,834
Police camp	4,703	-	4,703
Unreserved			
General fund	765,069	-	765,069
Special revenue funds	-	112,918	112,918
<b>Total fund balances</b>	<b>811,467</b>	<b>112,918</b>	<b>924,385</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,367,735</b>	<b>\$ 134,049</b>	<b>\$ 1,501,784</b>

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CITY OF ABBEVILLE

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
OCTOBER 31, 2008

Total fund balances - governmental funds	\$ 924,385
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:	
Land	261,432
Buildings and improvements	1,410,610
Infrastructure	1,833,704
Machinery and equipment	2,966,071
Accumulated depreciation	(3,306,175)
Total capital assets	3,165,642
Some revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	
Property taxes	90,231
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Capital leases payable	(356,111)
Notes payable	(363,548)
Accrued interest	(5,254)
Compensated absences	(43,024)
Total long-term liabilities	(767,937)
Net assets of governmental activities	\$ 3,412,321

The accompanying notes are an integral part of these financial statements.

**CITY OF ABBEVILLE**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED OCTOBER 31, 2008**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$ 1,471,201	\$ 44,255	\$ 1,515,456
Licenses and permits	1,421,661	-	1,421,661
Intergovernmental revenue	346,311	189,978	536,289
Charges for services	386,780	-	386,780
Building rent and recreation fees	13,527	-	13,527
Fines and forfeitures	103,320	-	103,320
Interest and investment income	15,555	2,951	18,506
Miscellaneous revenue	39,563	-	39,563
<b>Total revenues</b>	<b>3,797,918</b>	<b>237,184</b>	<b>4,035,102</b>
<b>EXPENDITURES</b>			
Current			
General government	852,763	-	852,763
Public safety	1,831,659	11,233	1,842,892
Public works	1,093,496	-	1,093,496
Recreation	344,778	-	344,778
Development	-	189,098	189,098
Non departmental	77,464	-	77,464
Debt service			
Principal retirement	162,755	-	162,755
Interest and fiscal charges	27,267	-	27,267
<b>Total expenditures</b>	<b>4,390,182</b>	<b>200,331</b>	<b>4,590,513</b>
Excess of revenues over (under) expenditures	(592,264)	36,853	(555,411)
<b>OTHER FINANCING SOURCES</b>			
Issuance of capital leases	262,746	-	262,746
Transfers (out)	(11,381)	-	(11,381)
Transfers in	429,972	11,381	441,353
<b>Total other financing sources</b>	<b>681,337</b>	<b>11,381</b>	<b>692,718</b>
Net change in fund balances	89,073	48,234	137,307
<b>Fund balances, beginning of year</b>	<b>722,394</b>	<b>64,684</b>	<b>787,078</b>
<b>Fund balances, end of year</b>	<b>\$ 811,467</b>	<b>\$ 112,918</b>	<b>\$ 924,385</b>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF ABBEVILLE**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2008**

Net change in fund balances - Total government funds	<u>\$ 137,307</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay	361,455
Depreciation expense	<u>(288,619)</u>
Excess of capital outlay over depreciation expense	<u>72,836</u>
The proceeds from the disposal of capital assets are reported as revenue in the governmental funds. The cost of the capital assets are removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain or loss on disposal of capital assets on the statement of activities:	
The net effect of various transactions involving capital assets is to decrease net assets	<u>(44,505)</u>
Because some revenue will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred property tax revenues decreased by this amount this year.	
	<u>(98,423)</u>
Issuance of long-term debt is reported as other financing sources in the governmental funds and thus contributes to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Issuance of debt:	
Capital leases	<u>(262,746)</u>
Repayment of long-term debt is reported as an expenditure in governmental funds. But the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consisted of:	
Payments on capital leases	125,317
Payments on notes payable	<u>37,438</u>
	<u>162,755</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	
	<u>1,950</u>
Change in net assets of government activities	<u><u>\$ (30,826)</u></u>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF ABBEVILLE**  
**ENTERPRISE FUND**  
**STATEMENT OF NET ASSETS**  
**OCTOBER 31, 2008**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 331,185
Cash and cash equivalents - restricted	267,890
Investments	704,464
Investments - restricted	186,932
Accounts receivable, net	1,012,469
Prepaid items	12,699
Inventories	605,065
Note receivable	17,136
Total current assets	<u>3,137,840</u>

**NONCURRENT ASSETS**

Bond issuance costs, net	<u>74,897</u>
Capital assets	
Land	196,535
Buildings and other improvements	12,213,362
Infrastructure	12,726,924
Equipment	2,410,328
Less accumulated depreciation	<u>(15,120,025)</u>
Capital assets, net	<u>12,427,124</u>
Total noncurrent assets	<u>12,502,021</u>
Total assets	<u>15,639,861</u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	614,841
Accrued expenses	86,137
Customer deposits	141,946
Accrued interest payable	83,518
Compensated absences	2,192
Capital lease payable	33,371
Bonds payable	502,572
Due to other funds	<u>338,368</u>
Total current liabilities	<u>1,802,945</u>

**LONG-TERM LIABILITIES**

Compensated absences	12,420
Capital lease payable	23,617
Bonds payable	<u>5,708,114</u>
Total long-term liabilities	<u>5,744,151</u>

**NET ASSETS**

Invested in capital assets, net of related debt	6,159,450
Restricted for	
Debt service	231,049
Capital outlay	223,773
Unrestricted	<u>1,478,493</u>
Total net assets	<u>\$ 8,092,765</u>

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**CITY OF ABBEVILLE**  
**ENTERPRISE FUND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**YEAR ENDED OCTOBER 31, 2008**

<b>OPERATING REVENUES</b>	
Sales to customers	\$ 8,111,293
Reconnection and tapping fees	124,641
Pole attachment fees	16,544
Other user fees	47,181
<b>Total operating revenues</b>	<u>8,299,659</u>
<b>OPERATING EXPENSES</b>	
Plant operations	915,609
Purchased power	4,172,400
Distribution	1,164,974
Public relations	33,118
Depreciation	664,375
General administration	1,194,854
<b>Total operating expenses</b>	<u>8,145,330</u>
Operating income	<u>154,329</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest income	50,275
Other revenues	16,875
Grant revenues	34,014
Gain on disposal of capital assets	4,985
Interest expense	(341,937)
<b>Total non-operating revenues (expenses)</b>	<u>(235,788)</u>
(Loss) before operating transfers	(81,459)
<b>TRANSFERS OUT</b>	<u>(429,972)</u>
Change in net assets	(511,431)
<b>NET ASSETS, beginning of year</b>	<u>8,604,196</u>
<b>NET ASSETS, end of year</b>	<u><u>\$ 8,092,765</u></u>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF ABBEVILLE**  
**ENTERPRISE FUND**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED OCTOBER 31, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from sales to customers	\$ 8,137,784
Receipts from sales to public authorities	346,218
Receipts from fees	188,366
Payments to suppliers	(6,185,141)
Payments to employees	(1,262,307)

<b>Net cash provided by operating activities</b>	1,224,920
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**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Payments received on notes receivable	9,435
Subsidy from utility association	16,875
Grant revenues	34,014
Transfers to general fund	(429,972)

<b>Net cash used for noncapital financing activities</b>	(369,648)
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	(276,016)
Proceeds from the sale of capital assets	5,279
Principal payments on debt	(6,599,993)
Interest paid	(364,528)
Bond proceeds	5,705,000

<b>Net cash used in capital and related financing activities</b>	(1,530,258)
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	50,275
Proceeds from sales and maturities of investments	768,861

<b>Net cash provided by investing activities</b>	819,136
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<b>Net increase in cash and cash equivalents</b>	144,150
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<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	454,925
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<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 599,075
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**RECONCILIATION OF OPERATING INCOME TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 154,329
Adjustments to reconcile operating income to net cash provided by operations	
Depreciation expense	664,375
Amortization of bond issuance cost	2,024
Loss on write off of bond issuance costs	145,903
Change in	
Accounts receivable	18,543
Prepaid expenses	(871)
Inventory	18,360
Bond issuance costs	(76,921)
Accounts payable	219,481
Accrued expenses	(16,288)
Customer deposits	7,948
Due to other funds	87,180
Compensated absences	857

<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 1,224,920
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**NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES**

Borrowing under capital leases	\$ 23,988
Purchase of equipment on account	23,988



**CITY OF ABBEVILLE**

**STATEMENT OF FIDUCIARY NET ASSETS  
OCTOBER 31, 2008**

**ASSETS**

Cash and cash equivalents	\$ 34,376
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<b>Total assets</b>	<b>\$ 34,376</b>
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**LIABILITIES**

Due to designated recipients	\$ 34,376
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<b>Total liabilities</b>	<b>\$ 34,376</b>
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*The accompanying notes are an integral part of these financial statements.*

**CITY OF ABBEVILLE**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Abbeville, South Carolina, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the government's accounting policies are described below.

**Reporting Entity**

The City of Abbeville (the "City"), which was established in 1832, is an incorporated municipality located in Abbeville County, South Carolina. The City operates under a council-manager form of government.

**Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements**

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities for City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

## Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column.

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Fiduciary funds (agency funds) have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major enterprise fund:

The *enterprise fund* accounts for the City's electric, water, and sewer services provided to the residents of the City of Abbeville and some of the surrounding areas. Activities of the government's electric distribution operations are reported in the electric department. Activities of the government's water distribution operations are reported in the water department. Operations of the sewage treatment plant and sewage pumping stations and collection systems are reported in the sewer department. Separate departments are maintained to report the results of operations by type of service provided.

Additionally, the government reports the following fund types:

### Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, or major capital projects) that are legally restricted to expenditures for specified purposes.

### Agency Fund

The agency fund accounts for monies held on behalf of the Fireman's Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's enterprise function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both, restricted and unrestricted, resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

## MEASUREMENT FOCUS

### Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the statement of net assets.

### Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

### **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

### **Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

### **Cash and Investments**

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the City to invest in:

- (1) Obligations of the United States and agencies thereof;
- (2) General obligations of the State of South Carolina or any of its political units;
- (3) Financial institutions to the extent that the same are insured by an agency of the federal government;
- (4) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest, provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
- (5) Repurchase agreements when collateralized by securities as set forth in this section;
- (6) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or other financial institution when acting as trustee or agent for a bond or other debt issue of the County, if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), and (5) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

Investments are stated at fair value; except that repurchase agreements and U.S. Government agencies that have a maturity at the time of purchase of one year or less are shown at amortized cost.

The City has certain funds invested with the South Carolina State Treasurer's Office, which established the South Carolina Local Government Investment Pool (the "Pool") pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State may be deposited. The Pool is a 2a 7-like pool which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but has a policy that it will operate in a manner consistent with the SEC's Rule 2a 7 of the Investment Company Act of 1940. In accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"*, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. The City's cash investment objectives are preservation of capital, liquidity and yield.

### **Receivables and Payables**

Transactions between funds that are representative of reimbursement arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as "internal balances".

All trade and property taxes receivable are shown net of an allowance for uncollectibles.

### **Inventories**

Under the system of accounting for inventories, materials and supplies are carried in an inventory account at average cost, and are used on a first-in, first-out basis, and are subsequently charged to expenditures/expenses when consumed rather than when purchased. Proprietary fund inventories include supplies required for the maintenance, repair and extension of the utility plants, as well as expendable small tools. Governmental fund inventories consist of gas and public works supplies.

### **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

### **Debt Issuance Costs**

Legal and accounting fees, printing costs, and other expenses associated with issuance of debt are being amortized on the straight-line method over the life of the debt which approximates the effective interest method. The portion remaining to be amortized is shown as bond issuances costs.

## Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500 for its capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred in the proprietary fund during the construction of capital assets is capitalized.

All reported capital assets except land and construction in progress are depreciated. Construction projects begin being depreciated once they are complete. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	40 years	33 - 50 years
Improvements (other than buildings)	10 - 20 years	10 - 20 years
<u>Infrastructure</u>		
Sewer System	N/A	33 years
Water System	N/A	40 years
Electric System	N/A	25 years
Sidewalks, Roads and Streets	20 years	N/A
Bridges	25 years	N/A
All Other	20 - 25 years	25 - 40 years
<u>Equipment</u>		
Computers and Office Equipment	10 years	10 years
Furniture and Fixtures	10 years	10 years
All Other	10 years	10 years

## Restricted Assets

Certain cash, cash equivalents and investments are restricted on the basic financial statements as they have been aside for specific purposes. These assets have been restricted because their use is (a) limited to purchases of certain capital assets as outlined in a capital lease agreement, (b) limited for debt service or (c) limited for other special purposes.

## Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." City employees are granted vacation and sick leave in varying amounts. Upon termination of employment, an employee is reimbursed for accumulated vacation days. Unused sick leave is not reimbursed and therefore not reported in the financial statements. The entire compensated absence liability and expense is reported on the government-wide financial statements. The portion applicable to the proprietary fund is also recorded in the proprietary fund financial statements.

In the governmental fund, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them.

In the proprietary funds and similar trust funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

### **Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### **Bond Discount**

On the government-wide and enterprise fund financial statements bond discounts are capitalized and amortized. The City amortizes bond discounts from bond issues on a straight-line basis over the life of the bonds which approximates the effective interest method. The portion remaining on the 1998 Series Revenue bonds was written off in the current year due to the payoff of the 1998 Series Revenue bonds.

### **Fund Equity**

In the fund financial statements, the City reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories of supplies and materials and prepaid items. Designations of fund equity represent tentative management plans that are subject to change.

### **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt, which has not been spent, is included in the same net assets components as the unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.



## **Property Taxes**

Property taxes are levied on the assessed value of real and personal property, excluding automobiles, as of December 31 of the calendar year preceding the fiscal year (i.e., taxes collected for the year ended October 31, 2008, were levied on the assessed value as of December 31, 2006). Liens attach to the property at the time taxes are levied. Taxes are due without penalty, for real and personal property excluding automobiles, through January 15. After that time, penalties are added depending on the date paid as follows:

January 16 through February 16	5% of tax
February 16 through March 2	10% of tax
March 2 and thereafter	15% of tax

Property tax revenues are recognized when due or past due and collectible within the current period or soon enough thereafter (defined as sixty days) to pay liabilities of the current period.

## **Accounting Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the City's management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## **NOTE 2 – BUDGETARY ACCOUNTING AND REPORTING**

### **Budgetary Policies**

An annual appropriated budget is adopted for the General Fund and is presented as required supplementary information. The budget is presented on a modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

The following is the City's procedure for establishing and adopting a budget:

- 1) At least forty days prior to November 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning November 1.
- 2) Public hearings are conducted to obtain taxpayer comments.
- 3) Prior to November 1, the budget is legally enacted through passage of an ordinance.
- 4) The department is the legal level of budgetary control. Expenditures may not legally exceed budgeted appropriations at the department level. During the year, several supplementary appropriations were necessary.
- 5) The City Manager is authorized to transfer budgeted amounts within departments, but not between departments, up to \$5,000, as necessary in case of emergency. City Council must be informed of such transfers at the next Council meeting. The City Manager shall also inform City Council at its next meeting of any expenditure over \$500 from any miscellaneous non-line item account.

### **NOTE 3 – DEPOSITS AND INVESTMENTS**

#### **Custodial Credit Risk – Deposits**

In case of deposits, this is the risk in the event of a bank failure, the City's deposits may not be returned to it. The City's policy is that all deposits in excess of federal insurance amounts be collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

At October 31, 2008, the carrying amount of the City's deposits was \$1,055,333 and the bank balance was \$1,136,156. The City's deposits at yearend were covered by federal depository insurance or fully collateralized. Petty cash funds of \$1,650 are reflected as cash on the balance sheet.

#### **Investments**

As of October 31, 2008, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less than 1</u>	<u>1 - 5</u>	<u>5 - 10</u>
Mutual funds	\$ 186,932	\$ 186,932	\$ -	\$ -
South Carolina local government investment pool	1,230,136	1,230,136	-	-
	<u>\$ 1,417,068</u>	<u>\$ 1,417,068</u>	<u>\$ -</u>	<u>\$ -</u>

#### **Interest Rate Risk**

The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investment maturities for short-term funds are as follows:

<u>Time</u>	<u>Maturing Amount</u>
Under 30 days	10% minimum
Under 90 days	25% minimum
Under 181 days	50% minimum
Under 1 year	100% minimum

Policy-related maturity scheduling for long-term funds are capped at 3 years.

#### **Credit Risk**

The City has an investment policy that follows state law as to its investment choices. As of October 31, 2008, in accordance with its investment policy, the City is invested with the S.C. Local Government Investment Pool as overseen by the State, which invests in instruments allowed under state laws. This investment pool does not have a credit quality rating assigned. It's a money market type pool, which is

fully collateralized, and the underlying securities are held by a third party bank for the pool. The underlying security ratings of the City's investment in the South Carolina Local Government Investment Pool may be obtained from the LGIP's complete financial statements. These financial statements may be obtained by writing to the following address:

The State Treasurer's Office  
Local Government Investment Pool  
Post Office Box 11778  
Columbia, South Carolina 29211

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In accordance with its investment policy, the City invests in the state investment pool which is not subject to custodial risk.

### **Concentration of Credit Risk**

The City places no limit on the amount the City may invest in any one issuer. As of October 31, 2008, no single issuer investment exceeded 5% of total investments.

### **NOTE 4 – RECEIVABLES**

Receivables as of yearend for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowance for uncollectible accounts, are as follows:

	General	Other Governmental Funds	Governmental Activities	Business-type Activities	Total
Taxes	\$ 55,738	\$ -	\$ 55,738	\$ -	\$ 55,738
Accounts	19,121	4,688	23,809	1,073,469	1,097,278
Notes	-	-	-	17,136	17,136
Intergovernmental	28,963	4,975	33,938	-	33,938
Gross receivables	103,822	9,663	113,485	1,090,605	1,204,090
Less: allowance	(5,000)	-	(5,000)	(61,000)	(66,000)
Net receivables	<u>\$ 98,822</u>	<u>\$ 9,663</u>	<u>\$ 108,485</u>	<u>\$ 1,029,605</u>	<u>\$ 1,138,090</u>

### **NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the City for the year ended October 31, 2008 was as follows:

<b>Governmental activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated				
Land	\$ 287,932	\$ 12,500	\$ 39,000	\$ 261,432
Total capital assets, not being depreciated	287,932	12,500	39,000	261,432
Capital assets, being depreciated:				
Buildings and improvements	1,386,936	23,674	-	1,410,610
Infrastructure	1,814,956	18,748	-	1,833,704
Equipment	2,686,664	306,533	27,126	2,966,071
Total capital assets, being depreciated	5,888,556	348,955	27,126	6,210,385
Less: accumulated depreciation for:				
Buildings and other improvements	950,728	22,053	-	972,781
Infrastructure	817,142	76,476	-	893,618
Equipment	1,271,307	190,090	21,621	1,439,776
Total accumulated depreciation	3,039,177	288,619	21,621	3,306,175
Total capital assets, being depreciated, net	2,849,379	60,336	5,505	2,904,210
Governmental activities capital assets, net	<u>\$ 3,137,311</u>	<u>\$ 72,836</u>	<u>\$ 44,505</u>	<u>\$ 3,165,642</u>

<b>Business-type activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 196,550	\$ -	\$ 15	\$ 196,535
Total capital assets, not being depreciated	196,550	-	15	196,535
Capital assets, being depreciated:				
Buildings and improvements	12,213,362	-	-	12,213,362
Infrastructure	12,585,517	141,407	-	12,726,924
Equipment	2,282,797	158,597	31,066	2,410,328
Total capital assets, being depreciated	27,081,676	300,004	31,066	27,350,614
Less: accumulated depreciation for:				
Buildings and improvements	5,890,519	78,559	-	5,969,078
Infrastructure	6,969,237	457,906	-	7,427,143
Equipment	1,626,681	127,910	30,787	1,723,804
Total accumulated depreciation	14,486,437	664,375	30,787	15,120,025
Total capital assets, being depreciated, net	12,595,239	(364,371)	279	12,230,589
Buisness-type activities capital assets, net	<u>\$ 12,791,789</u>	<u>\$ (364,371)</u>	<u>\$ 294</u>	<u>\$ 12,427,124</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 8,678
Public safety	120,424
Public works	120,576
Recreation	38,941
Total depreciation expense - governmental activities	<u>\$ 288,619</u>
Business-type Activities:	
Electric system	\$ 163,050
Water system	300,048
Sewer system	201,277
Total depreciation expense - business-type activities	<u>\$ 664,375</u>

#### **NOTE 6 – INTERFUND ASSETS AND LIABILITIES**

The balances of interfund receivables and payables at October 31, 2008 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental	\$ 4,975
General fund	Enterprise fund	338,368
		<u>343,343</u>
Nonmajor governmental	General fund	59,057
Total governmental fund		<u>\$ 402,400</u>

All of the above balances are scheduled to be collected in the subsequent year. The balances at October 31 resulted from the timelag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

#### **NOTE 7 – TRANSFERS IN AND (OUT)**

Transfers from (to) other funds for the year ended October 31, 2008, consisted of the following:

Transfer to (from) General Fund were as follows:	
Enterprise Funds transfer to General Fund	\$ 429,972
Nonmajor Governmental Funds transfer from General Fund	(11,381)
	<u>\$ 418,591</u>

Funds are transferred into the general fund from the enterprise fund in lieu of property taxes and franchise fees. Council approves the amount transferred annually during the budget process. In addition, the enterprise fund reimburses the general fund for its use of utility services.

Transfers from the general fund to nonmajor governmental funds are used to move unrestricted revenues to the various programs that the government accounts for in other funds.

## **NOTE 8 – LONG-TERM OBLIGATIONS**

Detail for each outstanding long-term debt issue as of October 31, 2008, was as follows:

### **Principal outstanding at yearend**

#### **Revenue Bonds**

In the fiscal year 2006, the City issued Combined Public Utility System Improvement Revenue Bonds in the Enterprise Fund. The amount of the original issue was \$275,000. Rates on the bonds are 4.24%. Semi-annual principal payments are due on January 15 and July 15 each year beginning July 1, 2008 and are between \$59,530 and \$59,660. Final maturity of the bonds is July 15, 2012.

\$ 224,470

In the fiscal year 2005, the City issued Combined Public Utility System Improvement Revenue Bonds in the Enterprise Fund. The amount of the original issue was \$410,000. Rates on the bonds are 6.5%. Semi-annual principal payments are due on February 1 and August 1 each year and are between \$36,026 and \$56,197. Final maturity of the bonds is August 1, 2009.

113,483

In the fiscal year 2004, the City issued Combined Public Utility System Revenue Bonds in the Enterprise Fund. The amount of the original issue was \$450,000. Rates on the bonds are 3.597%. Semi-annual principal payments are due on February 24 and August 24 each year and are between \$41,477 and \$48,695. Final maturity of the bonds is August 24, 2009.

96,528

In fiscal year 2007, the City issued Combined Public Utility System Improvement Revenue Bonds in the Enterprise Fund. The amount of the original issue was \$105,000. Rate on the bonds is 4.5%. The bonds are payable in six equal installments of \$18,730 due on December 1 and June 1 each year, beginning December 1, 2007. Final maturity of the bonds is June 1, 2010.

71,205

In the fiscal year 2008, the City issued Combined Public Utility System Refunding Revenue Bonds, Series 2008 in the Enterprise Fund. The amount of the original issue was \$5,705,000. Rate on the bonds is 4.05%. The bonds are payable in annual installments ranging from \$205,000 to \$420,000 due on July 1 each year beginning July 1, 2009. Final maturity of the bonds is July 1, 2027.

5,705,000

\$ 6,210,686

#### **Notes Payable**

Note payable to bank provides for 24 semiannual payments of \$16,742, including interest at 4.04%, beginning January, 2008, continuing through July, 2019. The original loan amount was \$315,000.

Aerial truck and related equipment are pledged as collateral.

\$ 294,100

Note payable to bank provides for 20 quarterly payments of \$5,081, including interest at 4.74%, beginning August, 2007, continuing through May, 2012. The original loan amount was \$90,000.

The taxing authority of the City is pledged as collateral.

69,448

\$ 363,548